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ABSTRACT

Small businesses have made a decisive contribution to the reconstruction and development of the German economy and society since World War II. The Federal Republic of Germany considers small-scale industry important and has granted tax relief and initiated a wide range of loan and guarantee programs for them. The Act against Restraints of Competition has proven its worth as a strong support for small business. Financial support is available to entrepreneurs through European Recovery Program loans, loans funded through the federal budget, joint federal and regional support, and research and development grants from the federal government. The promotion of small business is one of the priorities of German development aid. This involves support for small-scale craft and industrial business in Third World countries as part of German development projects, backing of cooperation between small German enterprises and their counterparts in developing countries, and formation of small business organizations in Third World nations. Improving the research situation of small- and medium-sized enterprises is a major goal of Bonn's research policy. Federal reforms of the health system, postal service, and statutory old-age pension scheme are intended to promote small business. The government also hopes to create more opportunities for the liberal professions through privatization. Special support for women is planned. (YLB)

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Freedom of Development for Industry and Consumers

Small Business and the Social Market Economy in the Federal Republic of Germany

by

Wilhelm Lange and Michael Breuer

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Small business and the social market economy

"The strength of the social market economy lies in its ability to adapt constantly to economic changes. However great the difficulties resulting from rapid market changes, we must regard them as a challenge and opportunity. The prospects are all the better, the more it proves possible to create additional scope for individual achievement in accordance with the principles of the social market economy. It is, after all, the many entrepreneurial decisions by small business that lead to greater economic growth, income and employment."

Chancellor Helmut Kohl, May 1988

The aim was to permit one man to handle them on his own: Without external assistance, i.e. solo, he was to be enabled to carry out work, previously done manually, using small and lightweight motors. This was the idea that led to the establishment of Solo Co. in Maichingen near Stuttgart some 40 years ago. The two founders, the Emmerich Bros., had already gained experience before World War II with the construction of small engines for model aircraft. They now proceeded to incorporate them into pumps, lawnmowers, rotary cultivators and small motorcycles.

However, the Emmerich Bros. were not able to start production on a larger scale until they received a government-guaranteed loan of DM 55,000 allowing them to build a factory. They were both technical and financial pioneers. Today, government-guaranteed low-interest loans for launching promising enterprises are common and can be obtained more easily than in those days when the way still had to cleared for such loans. Young people in the Federal Republic of Germany who desire to become independent receive government support if they possess the technical aptitude and their undertaking promises to be profitable. But this government backing must not obscure the fact that competition plays a major part in a social market economy, too. The assistance is always a secondary factor; market forces are the main determinant of an enterprise's success or failure.

The venture embarked on by the Emmerich Bros. proved to be highly successful. Today 70% of their company's output is exported.

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Their foreign commitment includes the People's Republic of China: a mutually beneficial technology transfer agreement has been concluded with a Chinese motor-saw manufacturer.

Small-scale industry: backbone of the economy

Small businesses like Solo Co. and many others have made a decisive contribution to the reconstruction and development of the German economy and society since World War II. There is every sign that they will continue to do so. Contrary to Karl Marx's predictions, small-scale industry has stood up well thanks to the efficiency of its plants and the dedication of its craftsmen, managers and traders. The Federal Government in Bonn also considers it highly important for the country's economic and social system, having stated on this subject:

> "The approximately 1.9 million small businesses in the Federal Republic of Germany, as opposed to only 3,600 large companies, are the main source of employment. They account for two thirds of jobs and for four fifths of apprenticeships. Many of the inventions and innovations on which German industry's international competitiveness rests are attributable to small business. Ensuring efficient small business and strengthening it are thus central tasks of economic and social policy. Above all, it is essential to establish fair conditions, especially in the economic sector, as well as favourable competitive and fiscal policies so that small business can hold its own against large enterprises."

The goal is thus clear. Ever since being founded in 1949, the Federal Republic of Germany has not only granted tax relief but initiated a wide range of loan and guarantee programmes for promoting small-scale industry. They include assistance from the European Recovery Programme (ERP), the Development Loan Corporation (KfW), the German Equalization Bank, the Federal Ministries of Economics and Research, the joint federal/Laender programme, credit guarantee associations and equity investment companies.

Common to all programmes is the aim of aiding business launches, innovation and investment; in the course of time there have been different lines of emphasis, e.g. the encouragement of investment in environmental protection, in West Berlin or in the area along

the border with the GDR. According to estimates by the Institute of Research on Small Business, Bonn, the low-interest credits and loans made available to small business in 1988 in this way totalled DM 18 billion, not to mention the tax relief provided.

What is small business?

German industrial giants are well-known: Bayer, Hoechst and BASF (chemicals), Daimler-Benz, Volkswagen, BMW and Audi (cars), Bertelsmann (books and records), VEBA AG (energy), Siemens, AEG and Bosch (electrical goods), Thyssen, Mannesmann, Hoesch, Krupp and Klöckner (steel and machinery), and many others. But who knows Ingenieurbüro Arnold in northern Hesse, Lacis GmbH in Stein or Elbeca near Bonn, which produces thousands of machines for cancelling tram and tube tickets?

The latter companies belong to the 1.9 million small businesses to be found in the Federal Republic of Germany (this does not include people engaged in the liberal professions or self-employed agricultural and forestry workers). Qualitatively speaking, they are firms run at full personal risk and commitment by the owners, who are actively involved in the work. They may be legally styled a partnership (OHG), limited company (GmbH or GmbH & Co. KG), limited partnership (KG), non-trading partnership (GbR) or simply an individually-owned firm. Quantitatively, a distinction is made between small undertakings with up to 49 employees or DM 1 mill. annual turnover and medium-sized undertakings with between 50 and 499 employees or between DM 1 mill. and DM 100 mill. annual turnover.

Small business consists of the following:
582,000 manufacturing firms,
625,000 firms in commerce and transport,
693,000 industrial service firms.
This includes 500,000 master craft businesses with a total of 3.9 million employees, 700,000 apprentices and an annual turnover of roughly DM 400 billion. By 1982 the number of these self-employed had decreased to 1.75 million, but in 1984 it rose again to 1.86 million and has steadily increased since then to 1.90 million.

Ludwig Erhard's lasting accomplishment

The self-employed make a substantial contribution to the economy:
- they employ over 12 million people,
- they train 1.4 million apprentices every year,
- they produce one half of the gross domestic product totalling DM 1,000 billion, account for one half of all tax-liable company turnover and make two fifths of all domestic investments.

Ludwig Erhard, the first economics minister and second chancellor of the Federal Republic of Germany, assigned an important role to the self-employed in his economic and competition policies. He made them the mainstay of his market economy, which his state secretary, Alfred Müller-Armack, termed a "social market economy".

In a market economy - as Erhard explained - events on the market are determined by the free decisions of each individual, whether producer or consumer. A market economy is the opposite of a centrally planned economy, in which the government controls and steers the economy from above. The economic system propagated by Erhard is "social" in that there is a social security network for the individual and in that consumers and small business are protected against any abuse of power or price manipulation by large companies. For this purpose, Erhard created the Act against Restraints of Competition, also known as the Anti-Trust Act, which was passed by the Bundestag at Bonn in 1957.

The Basic Law (constitution) of the Federal Republic of Germany adopted in 1949 refers to a number of fundamental economic freedoms, such as the free choice of a job and occupation, freedom of movement, freedom of association and freedom as regards consumption, trade and competition in keeping with article 2. It guarantees the right to private enterprise and property and subjects these various rights and freedoms to certain public obligations.

Thanks to Erhard's efforts, these constitutional precepts were incorporated into economic and competition policy and safeguarded by various laws so that they became permanent elements of the economic system.

Freedom, but no cutthroat competition

The Act against Restraints of Competition has proved its worth as a strong support for small business. It prohibits restraints of competition through cartel or vertical price-fixing agreements, concerted action vis-a-vis rivals or customers and any incitement to boycott other firms. As they are not subject to control by effective competition, market-dominating enterprises have to submit to special supervision to prevent them from abusing their power or discriminating against other companies. To avoid excessive concentration of economic strength, the Act envisages the monitoring of mergers.

In order to achieve these aims, the Act provides for statutory bans, prohibitions by federal or regional anti-trust authorities, registration requirements, entitlement to damages under civil law and the imposition of fines. As stated in the memorandum justifying the Act, the foregoing powers serve "to safeguard free competition and to eliminate economic might where it jeopardizes effective competition, increased performance and optimum supplies for consumers."

A functioning economic system needs free competition, but on the other hand rivals must not engage in cutthroat competition. The avoidance of such excesses is the objective of the Act against Unfair Competition, which was revised by Erhard and again amended in 1986. These two Acts are like the left and right feet of a single economic order. They have similar goals, but there is a decisive difference: The Anti-Trust Act is applied by supervisory authorities, whereas courts have to decide on any instances of unfair competition as defined in the other Act. The Federal Cartel Office in West Berlin, the highest anti-trust authority of the Federal Republic of Germany, has examined 8,273 company mergers since 1974 and prohibited them in 76 cases.

When is "help for self-help" useful?

While Ludwig Erhard was economics minister and then chancellor, further laws were passed to safeguard the social market economy:

for example, the Banking Act, which ensures that the central bank enjoys unprecedented freedom from political decisions taken by the respective federal government. Erhard also set standards for relations with developing countries. On returning from a visit to India, he wrote a letter to Chancellor Konrad Adenauer stressing the importance of small business on both the donor's and the recipient's side:

> "Loans to developing countries can prove fruitful only if economic and technical underdevelopment is overcome on the broadest possible basis, be it by improving agriculture or by equipping small-scale industry with efficient machinery. It is not wise to erect large steel works or other huge factories, which may be of symbolic significance but would appear to be of doubtful economic value. A much more useful and necessary approach is to develop further, in depth and on a wide scale, existing rudiments of craft and industrial activity and to generate broad-based purchasing power through the creation of jobs for the largest number of people feasible."

In 1953, Erhard's efforts led to the adoption of the ERP Administration Act, which derived from the Marshall Plan, and the Act on the Annual ERP Economic Plan, which entrusted the Development Loan Corporation (KfW) with important support measures for small business. The ERP Development Aid Act required that loans also be provided to developing countries from the ERP special fund existing alongside the federal budget. Today this is done exclusively with federal resources (excluding export assistance). Furthermore, the ERP Investment Aid Act authorized the KfW to grant loans to German towns and communities, too, for the purpose of stimulating the economy.

Small businesses are the main beneficiaries of low-interest loans and guarantees from ERP resources. In recent years they have received between DM 2.4 and 2.5 billion from these programmes. The funds are intended as "help for self-help" and have on average generated investments ten times as large.

Diligence and the Marshall Plan

The European Recovery Programme (ERP) was the achievement of US Secretary of State George C. Marshall, who made machinery, raw materials, food and medicine worth a total of US$ 13 billion

available to Europe as it lay in ruins after World War II. The western zones of defeated Germany and Berlin received supplies amounting to US$ 3.3 billion. The federal governments in Bonn made good use of this aid to the benefit of the German economy. Later on, US$ 1.7 billion was duly repaid to the United States, as had been agreed. The remaining money from the Marshall Plan formed the nucleus of the ERP programmes. German recipients had to pay in deutschmarks the equivalent of the American supplies - initially to the federal treasury, and subsequently to the KfW in Frankfurt/Main.

The capital thus formed was repeatedly lent to budding entrepreneurs in the form of revolving loans granted on favourable terms, with preference being given to small and medium-sized undertakings. Together with the diligence of the people concerned, this led to new enterprises and jobs. The ERP special fund now totals DM 16 billion. On account of the constant returns and renewed lending, investments amounting to DM 64 billion have been generated in this way. The fund thus has a crucial multiplier effect benefiting mainly small business, i.e. firms which cannot obtain financial resources from the capital market by issuing shares or by other means.

However, the KfW, which provides these loans via the applicants' private banks, does not confine itself to ERP programmes. It has also developed its own programmes, which it manages on the Federal Government's behalf. As a central lending institute, it supplies loans for assisting German industry and funding eligible projects abroad. It is a kind of development bank for the German economy and for the developing countries. In keeping with its functions, it acts as a link between the capital market, where it also raises funds, and the investors.

Low interest rates and long maturities

The terms on which these loans are granted are favourable to small business. On average, the interest rate lies between 4.5 and 6%, i.e. several percentage points below commercial rates.

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The maturities are 10, 15 or 20 years, with two grace years at the start. The programme for the establishment of plants in developing countries, which is run by the Federal Ministry for Economic Cooperation, has the lowest interest rates (2.5 and 3.5%).

The procedure is simple. A master craftsman, for example, who intends to launch his own business gets in touch with his private bank, which forwards his application to the KfW together with the usual certificates of the craft chamber (or of the chamber of industry and commerce in the case of industrial undertakings). According to the Institute of Research on Small Business, the loan becomes available after one to three months.

From company launches to environmental protection

The Federal Ministry of Economics in Bonn has issued a 76-page brochure listing all types of financial support for small business. This indicates the wide range of "help for self-help' available to entrepreneurs from public sources. The main element is the aforementioned ERP economic plan with 12 kinds of support for company launches, for general investments, waste disposal plants, on-the-job apprenticeships, inland navigation, small and medium-sized press businesses, effluent treatment plants, clean air facilities, investments in small and medium-sized enterprises and their refinancing, the awarding of contracts to West Berlin, small business in structurally disadvantaged regions and, finally, assistance for seaport operators. The German Equalization Bank, likewise government-owned, offers supplementary programmes.

From funds not belonging to the ERP plan the KfW provides loans for venture capital, investments, environmental protection measures, export financing and the introduction of modern technology in small or medium-sized companies.

From the federal budget, loans are granted for launching firms (equity assistance), for helping German companies to set up plants in developing countries and for supporting undertakings that equip small business with modern technology. Particularly

favourable are the federal resources that German companies can apply for in order to establish plants in developing countries. Such projects must, however, serve the economic development of the respective developing country. For this purpose, loans are available up to DM 2.5 million, which carry an interest rate of 2.5 to 3.5% and have to be repaid within 15 years after five grace years.

Small business is also promoted jointly by federal and Laender authorities as part of regional support. The aim of this joint effort is to assist structurally disadvantaged regions so that they can catch up with the development of the economy as a whole. Federal authorities contribute one half of the funds, while the Laender themselves are responsible for implementation. Between 1972 and 1986, 52,000 investment projects involving a volume of DM 157 billion were supported by public contributions totalling DM 4.9 billion. According to the recipient firms, this led to the creation of 900,000 new jobs, and 1.3 million endangered jobs were made secure. 64% of the total resources benefited small business; the amount granted to the latter lay below DM 1 million in each case.

Since late 1982 the Conservative/Liberal coalition government in Bonn has considerably improved the support for company launches, especially the equity assistance programme. The number of sponsored launches has risen year by year, from 3,000 to 9,000 on average. All in all, some 37,000 budding entrepreneurs received equity assistance totalling DM 1.9 billion between early 1983 and 1987 for the purpose of improving their starting position. At the same time, a further 14,000 business launches were aided with ERP funds. Extra support is available to company founders who make use of expert consultancy services; 60% of such expenditure, but not more than DM 2,500 in each instance, is reimbursed from public sources. Unlike large companies, small firms cannot draw on their own staff when developing new concepts, but are dependent on the services of external experts. Since 1983, the Federal Government has annually provided grants for about 70,000 such cases of consultancy.

Another type of public support are grants towards staff expenditure incurred by small business in the research and development sector. In 1987, some 12,000 small enterprises applied for such grants, for which the Federal Government made DM 370 million available. For small business it also provided sums of DM 114 million for management training and DM 97 million for joint industrial research.

Exports and development aid

Tied loans for medium- or long-term financing of exports are generally granted by the KfW to the foreign buyer or to a bank in the buyer's country. The loans are usually given on the basis of Hermes guarantees (Federal Governemt export credit guarantees). When funding major industrial projects, the loans are made available in collaboration with the exporter's private bank. Special types of loans are those used for financing the sale of ocean-going merchant vessels and aircraft.

The Federal Government and the government of the developing country agree on suitable development projects. They include investment projects, sectoral programmes, development bank projects as well as structural and sectoral adjustment programmes. Before a loan or grant is given, the projects are examined by the KfW. This examination, a large part of which occurs in the developing country itself, may encompass a problem and target analysis, questions concerning project design, the staffing and organizational requirements as well as potential microeconomic, macroeconomic, socio-economic, socio-cultural and ecological effects. The findings of the KfW's examination are summarized in a report, which is submitted to the Federal Government together with a suggestion on the decision to take. After a decision to sponsor the project and after fixing the volume and terms of the support, a loan or financial contribution agreement is concluded by the KfW with the recipient country or the project implementing agency.

In the case of untied loans or grants, the Federal Government's consent is likewise required. Such funds serve to finance the importation of specific basic, civilian goods and services particularly needed by the recipient country.

The loans or grants are disbursed in accordance with the progress of the project. The KfW monitors the project execution and makes sure that the resources are used for the intended purpose.

In keeping with the philosophy of German official development aid (ODA), preference is given on both the donor's and the recipient's side to small business. This also applies to cooperation with countries belonging to the Council for Mutual Economic Assistance (Comecon). Consequently, representatives of small business and its organizations always take part in the discussions, especially with the Soviet Union.

Small business promotion as part of development cooperation

"The momentum of the private sector must supplement ODA. Small-scale trade and industry still has considerable untapped potential. In developing countries, too, private enterprise must to a greater extent become the engine of healthy economic growth." The link between development policy and small business can hardly be described more aptly than by those three sentences spoken by Chancellor Helmut Kohl in a policy statement to the Bundestag.

On the one hand, German firms can no longer confine themselves to exports if they are to hold their own on world markets in the long run. Additional types of foreign commitment are called for, for example licensing agreements, agencies and service centres, sales and trading branches, assembly and production plants. On the other hand, most developing countries have come to realize that economic progress is not possible without the free play of market forces.

Those responsible for German development policy and their partners in the Third World have discovered that help for self-help has the greatest impact in cases where it is based on traditional methods and established structures. This is the point of departure for the development of the private sector. By exploiting the latter's momentum, tangible prospects of success emerge for ODA and inter-company cooperation.

Collaboration between German firms and companies in developing countries can make an important contribution to the latter's economic and social advancement. Both the shortage of ODA funds and the debt problem necessitate increased transfers of private capital. Private investments are an especially suitable means of accelerating the economic development of Third World countries and simultaneously strengthening their external economic relations with the Federal Republic of Germany. Such investments not only supply venture capital but also help to transfer technical know-how and entrepreneurial experience. In addition, they create jobs and apprenticeships in the developing countries and almost always have a positive impact on the foreign exchange situation of the countries. With its programme encouraging German companies to set up plants in developing countries, the Federal Government particularly promotes the foreign commitment of small business.

Development Aid Minister Hans Klein has justified as follows the wide-ranging instruments for supporting small business: "By dint of their experience and knowledge, German companies can contribute a great deal to the development of Third World countries. In view of global interdependence it is - above and beyond the need to assist people living in dire want on humanitarian grounds - in our own interest, too, to help improve the living standards, employment opportunities and purchasing power of the billions of people in the Third World."

The promotion of small business is one of the priorities of German development aid. This involves, for instance, support for small-scale craft and industrial business in Third World countries as part of German development projects. It also entails the backing of cooperation between small German enterprises and their counterparts in developing countries. Furthermore, German development policy fosters the formation of small-business organizations in Third World nations, e.g. craft chambers or credit cooperatives.

In this context, numerous German craft chambers have - with organizational and financial support from the development aid budget -

concluded twinning agreements with craft organizations in the Third World. The Federation of German Savings Banks assists the development and expansion of savings banks in developing countries. The aim is to help savings banks there to induce above all small craft and industrial enterprises to form more savings and to familiarize them with the use of loans. Such projects exist in Peru and Sri Lanka, in Togo and Bangladesh.

The development aid ministry in Bonn particularly backs the direct engagement of small German enterprises in developing countries. Precisely such enterprises have, according to Parliamentary State Secretary Volkmar Köhler, "the flexibility needed to adjust to the specific conditions prevailing in a developing country. In an exemplary fashion they are able to offer appropriate solutions to problems. They can thus stimulate small business in the developing country, thereby fostering a broad-based middle stratum, which is lacking in almost all developing countries but can play - as we now know - a key role in the development process."

The Federal Government has created a wide range of methods for encouraging cooperation among small undertakings. This includes about 50 advisers on the initiation of inter-company collaboration, on investments and on the expansion of trade. These advisers are based in developing countries; in the Federal Republic of Germany, their work is supplemented by experts from the German Corporation for Technical Cooperation (GTZ). In the trade sector, the promotion of trade fairs has been stepped up in recent years. One aspect is product consultancy because developing countries' craft and industrial exports often fail to be successful due to their quality and their inadequate orientation towards European tastes. There is hardly any major German trade fair - and the Federal Republic of Germany is the most important trade fair site in the world - at which developing countries do not present their products with the aid of GTZ experts; this frequently results not only in trade deals with German customers, but also in close collaboration or even joint production.

Such cooperation is supported by the German Finance Company for Investments in Developing Countries (DEG), Cologne. This federal

company assists joint ventures between German firms and companies in developing countries by means of investments and loans. Since 1983 there has been a programme offering support to small business on particularly favourable terms.

However, all Federal Government aid designed to foster the increased involvement of small German business and the organization of small-scale industry in Third World countries is of little use if unfavourable conditions for private enterprise exist there. For this reason, the Federal Government is engaged in an intensive policy dialogue with a number of developing countries for the purpose of elaborating a framework for German development aid and private economic activity. The objective is to establish in developing countries, where still lacking, suitable legislative, administrative and organizational conditions for the creation of an efficient economy. Only within the appropriate framework can greater private-sector commitment come about and make a major developmental contribution.

Research: investing in the future

Improving the research situation of small and medium-sized enterprises in the Federal Republic of Germany is a major goal of Bonn's research policy. So-called indirect research promotion has proved to be particularly successful; instead of defining research targets or projects, small business's research potential in general is strengthened. This is achieved, for example, by tax relief on research investments or by support for additionally recruited research staff.

Between 1982 and 1987, the amount spent by the Federal Ministry of Research on encouraging research in small business increased almost fourfold. On looking at all small business promotion in the research sector, one discovers that, in relation to their own expenditure on research and development, small firms today receive twice as much support as large companies: the latter obtain 8 pfennigs for each deutschmark spent on R&D, and small undertakings 16 pfennigs.

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This ensures in a predictable and unbureaucratic manner that small enterprises are able to introduce and apply modern technology. Conversations with representatives of industrial associations and small business have revealed that these Federal Government programmes are successful and fully accepted. This is highly important not least because, according to various surveys, well-run small undertakings help to reduce unemployment to a greater extent than do large companies and groups. For instance, a survey conducted by Industriekreditbank AG showed that in the companies questioned the net increase in employees between late 1982 and late 1985 amounted to almost 5%, which was considerably higher than in the economy as a whole (1.8%).

The Federal Government's support for research enables small business to hold its own in competition thanks to the use of modern technology. The public assistance is a strong boost in this respect, but the main effort still has to be made by the firms themselves.

Creativity pays off

"Not the largest, but the most creative companies set the pace", said Finance Minister Birgit Beuel of Lower Saxony at the Hanover Trade Fair. By this she meant employment trends in firms of different sizes. Between 1977 and 1987, undertakings with up to 19 employees raised the number of their jobs by 35%. As companies increase in size, this rate drops, reaching only 9% for large firms (500 or more employees). Since 1977, 56% of all new jobs have therefore been created in small business. This is particularly evident in the service sector, where 87% of all firms have fewer than ten employees liable to social insurance.

Risk-taking, creativity and the utmost dedication are characteristics of small companies, according to the Institute of Research on Small Business. A survey conducted by the latter revealed that these self-employed people work more than 12 hours a day on average. The rewards of their diligence stay within certain limits: Although they earn more than employees on average, the annual in-

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come of 80% of them remains below DM 100,000. Any money they can spare is ploughed back into the company as investment. Small business is also particularly creative: It accounts for four out of every five patent applications.

It is not just men who have the necessary ideas and courage. One third of all newly founded companies are run by women, for example Ruth and G. Lacis GmbH: For 15 years now, the owner, Ruth Lacis, and her daughter, Kirsten Lacis, who holds a degree in engineering, have occupied themselves with the design of robots that assemble petrol pumps and filters, process time switches and ball bearings and fit the nibs of fountain pens. It all started with an old typewriter and a drawing board. Improvisation and courage were needed. The distrustful attitude towards these two creative women has vanished: 126 firms at home and abroad now belong to this powerhouse of ideas for industrial robots. Women are highly regarded because they do precision work and sometimes have better ideas than their male counterparts. Kirstin Lacis, the junior manager, feels that robots "should have a pleasing appearance".

Control through taxation

Taxes are an important aspect of small business promotion. In order to enhance the investment potential of small enterprises, the Federal Government reduced in late 1982, as one of its first relief measures, the extent to which long-term company debts are liable to trading capital tax. Since early 1983 only 60% of such debts (credits, loans and other capital from outside sources), and since 1984 merely 50%, are subject to trading capital tax. This has meant tax relief totalling DM 1.75 billion.

Since 1984, relief has also been granted on tax-liable business assets. For every person concerned an amount of up to DM 200,000 is exempt from property tax, in addition to the general tax allowance of DM 75,000. This relief totals DM 1.2 billion. The doubling to DM 10 million in 1984 of the maximum tax carryback of losses, which permits a setoff of the two previous years' profits and losses, benefits small business in particular.

The improved special depreciation allowance for movable assets, in effect since the beginning of 1988, is intended to strengthen still further the investment potential of small companies. The annual depreciation rate allowed has been doubled to 20%. The number of firms benefiting has been increased by doubling the assessed-value limit to DM 240,000. This typical small-business depreciation option has been improved in response to many requests by small-scale industry.

Small business is substantially assisted by the three-step tax reform of 1986, 1988 and 1990. Income tax rates are being lowered. Instead of a graduated scale from 22 to 56%, a straight-line scale from 19 to 50% or 53% will become effective in 1990. This tax relief permits companies to retain more profits and thus reinvest more. For the government it entails a DM 43.7 billion decrease in tax revenue. Of that amount, about DM 10 billion will benefit small undertakings eligible for support.

> Here is an example: The owner of a small business located in the region along the border with the GDR has a tax-liable income of DM 150,000. In 1985, he would have had to pay DM 55,466 in tax. As from 1990, the situation will change: Although his greater private share in the car used for company purposes means a higher tax charge, in 1990 he will only have to pay tax amounting to DM 46,006. Against 1985, this will be DM 9,460 or 17.1% less.

Momentum through reform

The economic potential and commitment of small business are to be bolstered by three reforms which the Federal Government intends to put into effect by the end of 1990: the reform of the health system, which takes effect in 1989, of the postal service (Bundespost) and of the statutory old-age pension scheme.

The Bundespost, a monopoly with 550,000 employees, will remain subject to the political control of the Federal Ministry of Posts, but will be divided into three sectors: mail, girobank and telecommunications. Competition will be introduced in respect of telecommunications equipment, a rapidly expanding market. The Bundespost will continue to provide the cabling leading to factories, offices or homes, but the customer can choose whether to

buy telecommunications equipment from private firms or from the state-owned Bundespost. This means great competitive opportunities for small-scale electrical goods and service companies.

In the statutory health and pension insurance schemes, which cater for about 90% of the population, there is a threat of steeply increased contributions having to be paid due to demographic trends. "Our society is growing old" is how Federal Labour Minister Norbert Blüm described the situation. At present, contributions to the statutory health insurance scheme lie between 12 and 13% of gross earnings, and to the statutory pension insurance scheme at 18.7%, with employers and employees each paying one half. If the contributions rise, this poses a greater burden both on the insured and on the labour costs of companies, most of which are small businesses, thus impairing their competitiveness.

From 1989 onwards, patients thus have to pay more towards the cost of dentures, remedies, medical aids, treatment in hospital or at health resorts. Fixed prices are being introduced for medicines. Where several have the same therapeutic effect, the insurance scheme will only pay for the cheapest. Anyone who wants a more expensive medicine has to pay the difference himself. About DM 14 billion are expected to be saved annually in this way, one half of which is to be used for lowering contributions by 0.8 percentage points, and the other half for improving domestic care for severely infirm or handicapped persons. The burden on labour costs will be reduced annually by 0.4 percentage points, i.e. DM 3.5 billion.

For the pension reform the Federal Labour Minister has presented a plan intended to ensure that this social security sector can also be funded on a long-term basis. The burden is to be shared by contributors, pensioners and the government. Once the reform takes effect, pensions will only rise at the same pace as disposable incomes, i.e. the annual pension adjustment will be geared to net earnings and no longer to gross earnings of workers. The Federal Government's grant towards the pension scheme, now fixed at 17.8% of pension expenditure, is to be raised and is to in-

crease in future in the same way as the contributions. Like this, contributions will not exceed 20% of gross earnings by the year 2010, whereas without a reform a rise to 24%, with employers and employees each paying 12%, would have been unavoidable.

Fit for the large, single market

German small business is optimistic about the completion of the single European market for over 320 million consumers by the end of 1992. They are prepared for stiffer competition on this market. At present, takeover bids by large companies still determine the European scene. But the pioneers of the European Community (EC) in Brussels state that size alone will not suffice to secure the momentum of the single market formed by the 12 member countries. The establishment of many thousands of new small enterprises is a precondition for a successful single market. "Small is beautiful" - in Europe and worldwide, as examples in the USA and Japan prove.

The EC offers attractive prospects for innovative firms. "About 40% of consumer goods that will be sold on the European market in the year 2000 are still unknown today", said EC Commissioner Abel Matutes responsible for small business. "Even children must be told of the important role to be played by entrepreneurs in the future EC." For this, the Spaniard also demands a change of values and outlooks so that not just profits, but also employment, environmental protection and reliability are rated highly.

According to chambers of industry and commerce, young undertakings in Europe suffer more from a common ailment than those in Japan or the USA: a high "mortality rate" in the third to fifth year after their launch. This phenomenon, above all a cyclical problem, also occurs in the Federal Republic of Germany, where about a third of all new firms collapse in the first five years. However, this figure includes only a few of those who receive government support after careful examination. Most fail because of the competition, which cannot be dispensed with in a social market economy. The government can only assist the launching of companies.

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Studies have also revealed that small business suffers more than large companies from administrative and other state-imposed burdens. The EC Commission is trying to thin out the European thicket of industrial standards so that small firms, too, come up against less red tape on the future single market.

Liberal professions: a host of highly responsible services

To many, "liberal professions" means doctors, solicitors or architects who achieve top incomes, are their own bosses and enjoy a high status. However, due to this widespread misconception, people fail to realize that the liberal professions cover far more fields and to be aware of most of the characteristics of these professions. The diverse services provided by the liberal professions shape not only economic, but also public and private life in a free society like the Federal Republic of Germany. Apart from medical, legal and economic consultancy professions, they encompass independent technical and scientific occupations as well as educational, psychological and translating activities. Free-lance journalism and independent artistic activities are also traditional areas of the liberal professions.

Due to this wide spectrum, it is hard to define liberal professions. The main feature is independence. This implies not only bearing the economic risk entailed by being independent, but also being responsible on one's own for the work done and controlled by oneself (after all, there are doctors or economic consultants who are employees but whose occupation is regarded as a liberal profession). The decisive factor is that these professionals are bound only by their professional duties, knowledge and conscience and act on their own responsibility.

Another criterion distinguishing liberal professions from, say, a self-employed baker or motor mechanic is that the former are generally of an intellectual nature and usually presuppose academic training. This becomes even clearer on tracing the roots of liberal professions. In Antiquity, the "artes liberales" embraced geometry, arithmetic, music, physical education, drawing, astrology, medicine and architecture - disciplines with which educated persons had to be familiar.

Another glance at history reveals an essential feature of liberal professions: In ancient Rome, acting as advocate was not regarded as an occupation, but as a respected voluntary service to the weak members of society. Not until later, under Emperor Claudius, was it decided that advocates should be entitled to a fee. This idea continues to make itself felt today; the ethics of the liberal professions require that the latter should not be primarily aimed at achieving money and profit. Most members of the liberal professions calculate their fees on the basis of schedules issued by the government, which are to be abolished in the medium term, however. In this field, too, there is to be greater competition. Maximum profits are thus not the main goal; instead the principal objective of liberal professions is to provide direct services to the individual: the doctor or physiotherapist who restores the patient's health, the solictor who defends his client's rights or the tax adviser who helps people with the complicated matter of filling in income tax returns.

Liberal professions: a dynamic economic factor

The liberal professions are indispensable not only for their social function; they are also of great economic importance. Small business is dependent on the creativity and ingenuity of the liberal professions. A Federal Government report on the state of liberal professions in the Federal Repubic of Germany said the following in 1979: "By advising small business in particular, the liberal professions help to preserve a balanced structure and hence to safeguard competition in the market economy." Liberal professions are indeed a dynamic economic factor. In economic and employment terms, they are more important than, say, agriculture in the Federal Republic.

The roughly 380,000 members of the liberal professions have over a million employees in their practices, offices, chambers and studios, including more than 150,000 trainees. This means that over 5% of the working population of 26 million earn a living in the sector of the liberal professions. They account for a significant portion of the German gross national product (GNP), producing DM 100 billion annually.

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Professor J.F. Volrad Deneke, president of the Federation of German Liberal Professions (BFB), is thus able to point out with some satisfaction that the liberal professions' share of the GNP has quadrupled since the founding of the Federal Republic of Germany. The number of these professionals has also increased and is today 15% higher than in 1979, when there were 295,000.

Privatization: more opportunities for liberal professions

"Lowering the public sector's share of the GNP is an important goal in order to widen the scope for free-market decisions and hence obtain better conditions for more dynamic growth and employment. This involves closer examination of public services to see whether they can be privatized." With this statement, former Federal Economics Minister Martin Bangemann not only supported the liberal professions, but also referred to one of the main areas of conflict for the latter: privatization. The liberal professions have constantly been demanding that public services in their areas of activity be transferred to them. The BFB, a federation of 90 professional organizations and 11 regional associations, presented in mid-1986 an extensive, up-to-date list of areas for privatization. One of the priorities of the demanded privatization are technical inspectorates, where privatization has now been initiated. This concerns not only technical inspections of cars or motorbikes, but the entire spectrum of supervision and inspections in the fields of environmental protection, building and industrial safety.

The transfer of tasks - in the health, economic, legal and cultural sectors, too - would be beneficial to both sides, i.e. the government and the liberal professions. By privatizing public services, the services are likely to become cheaper and more market-orientated - a decisive gain for the public as well. This also permits public expenditure to be lowered, public debts to be limited on a long-term basis and red tape to be reduced.

Another major aspect is the growing number of young people seeking to become members of the liberal professions as a result of

the "glut of academics". Increased privatization would also create more openings for them. Not just services at the national level are considered eligible for privatization; such potential exists especially at the regional and local levels. The Federal Government is by all means aware of the trends, as is clear from Chancellor Kohl's remarks at the German Architects' Congress in October 1985: "I strongly support all efforts to transfer public services and award public contracts to private businesses and not least to members of the liberal professions. This is, in my view, an important contribution towards promoting private enterprise, stimulating the economy and enhancing innovation."

The Federal Government is not indifferent to the liberal professions. It therefore helps their members to set up and consolidate their undertakings in accordance with the motto "help for self-help". Under the programme "Guarantees for bank loans to members of liberal professions", guarantees have so far been provided for 35,000 such professionals for a total loan volume of over DM 3.4 billion. Under other Federal Government schemes, 1,400 members of liberal professions have received assistance totalling DM 42 million. Mention should also be made of the special Laender support programmes.

Training for independence despite "glut of academics"

"Entrepreneurial risk-taking is not something you learn at university", said Hans Falarzik on the subject of liberal professions. "But risk-taking is an essential aspect", he added. Two years ago he and Rainer Dörelmann set up their joint law office in a town with 80,000 inhabitants. Without any staff but through great effort they managed to survive the first year. "Today the business is functioning better", they are pleased to say, because apart from a permanently employed clerk they now also have a trainee. But they have to cope with considerable financial risks and competitive pressure. Whether the effort is truly worthwhile for the two young solicitors will not become fully clear for a few years yet. An initial period of 3 to 5 years is needed in order to tell whether or not the path to independence leads to failure.

Despite this uncertain situation, ever more young people are seeking to become solicitors in the Federal Republic of Germany. Since 1970, the number of solicitors has doubled to roughly 45,000 at present. Law studies in particular are attracting many people who, because of university admission restrictions or a freeze on recruitment, are unable to opt for the career that genuinely interests them, e.g. doctor or teacher.

However, the "glut of academics" is a problem not only in the legal field. All liberal professions - be they tax advisers, auditors or doctors - are affected by the current and continuing large number of university graduates. According to calculations by the Institute for Liberal Professions at the University of Erlangen-Nuremberg, the members of the liberal professions will increase in number from 380,000 at present to about 550,000 in the year 2000.

This steep rise will lead to stiffer competition and hence to a loss of income in liberal professions. The aforementioned institute thus expects this trend to be accompanied by a change in this field. Even today, alternative forms of exercising these professions are visible. Traditional liberal professions like doctor or solicitor will in future also have to consider part-time work and joint law offices, with mixed types of income, the combination of free-lance work with other activities and the earning of an income by the spouse being other options to take into account.

Improved prospects for budding professionals could also be created by universities not only providing them with technical training but also dealing in more detail with the problems likely to be encountered by them. As the job situation worsens, the demand of the liberal professions that public services be privatized will become all the stronger, as this would open up sizable new areas of activity for them. In the industrial sector, such new opportunities would above all relate to modern technology, environmental protection, energy consultancy and technical inspections.

Self-reliant women: women in liberal professions

In autumn 1987 the Bundespost issued a special stamp paying tribute to a woman: Dorothea Erxleben, born in 1715. She was the first woman doctor in Germany. Her male counterparts put numerous obstacles in her way. Nonetheless, or perhaps precisely for this reason, she submitted her doctoral thesis in 1754. Admittedly, she was not the first woman member of the liberal professions - one need only recall the occupation of midwife going back thousands of years. However, Dorothea Erxleben is a typical example of how women struggled for their position through above-average achievements, and they still have to do so in the liberal professions.

Women account for about 25% of the 380,000 professionals in the Federal Republic of Germany. This share will rise further due to the many female university graduates. In 1960, 27% of all students were women, but in the first half of the 1980s this figure reached 40%.

It is still harder for women with a university degree to find a suitable job than for men. Yet in some liberal professions there is an above-average number of women. In particular these are typical women's occupations like masseuse, physiotherapist and midwife. But women have also asserted themselves as dispensing chemists. A third of the owners or lessees of pharmacies are women. A similar situation exists in respect of solicitors: The number of women solicitors is increasing twice as fast as that of their male counterparts. Women also make up 28.4% of doctors, once a male preserve.

Women professionals still have to struggle with the regulations concerning maternity protection and security in the event of illness. These regulations are still inadequate, but the government has perceived the problems.

Rita Süssmuth, formerly Federal Minister for Family Affairs and now Bundestag speaker, regards the rising number of female uni-

versity graduates as a challenge: "The increasing number of academics, with young women making up an above-average proportion, must not be seen primarily as an employment problem. Above all we must view this as an opportunity to shape our economy and society, our culture and politics, in such a way as to achieve a humane future. The many qualified women can make a specific contribution to this endeavour, provided they are given the chance to demonstrate their abilities and efficiency." Mrs Süssmuth has thus appealed to the members of the liberal professions to assist women in taking up such professions because they, too, can benefit from women's creativity.

Democracy includes a social market economy

Since the inception of the Conservative/Liberal coalition government in late 1982, there has been a return in Bonn to the principles of a social market economy. New investment momentum has been generated by means of fiscal policy; within five years, the number of jobs increased by about one million. Deregulation has helped small business in particular, which cannot maintain a large administration, to overcome bureaucratic obstacles.

"Only if the principles of a social market economy are applied", as Chancellor Kohl stated, "can the economy thrive and social security exist on a long-term basis. This must be accompanied by dedication and creativity. Then we can keep up with the world's leading nations, create new jobs and help the weak members of society. Above all we must attend to those who do not have any powerful lobbies or spokesmen. Our aim is to ensure that people obtain security and more opportunities for free development in a humane environment."

Ludwig Erhard, the pacemaker of the social market economy in the early years of the Federal Republic of Germany, was also someone who did not regard the aim of "prosperity for all" as an end in itself. He said: "I believe that a functioning economy must be ensured for all in order to lay the foundations for the attainment of higher goals and for the fulfilment of non-material and

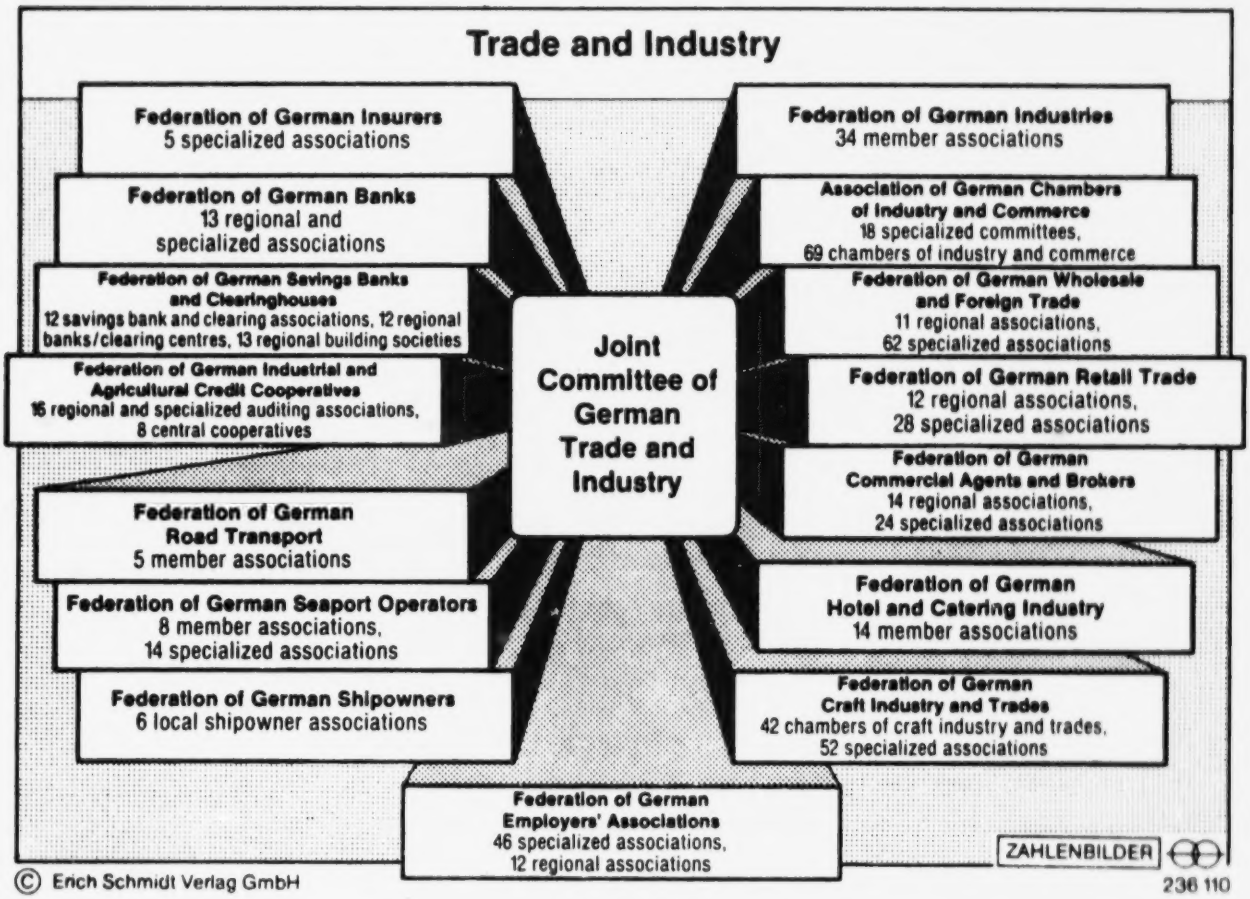
intellectual aspirations. Only when the material basis is secured for people are they free to devote themselves to intellectual and ethical matters."

Structure of trade and industry

In order to promote and protect common economic interests, trade and industry in the Federal Republic of Germany have set up numerous organizations with different functions.

Chambers of crafts and of industry and commerce exist as associations that provide the businesses in their respective region with advice, information and other services and defend their interests via-a-vis public authorities and other bodies. Employers' associations have the task of attending to the common social concerns of company workforces; among other things, they negotiate collective agreements with trade unions. Organizations with exclusively economic objectives are the business associations, which defend the specific interests of the businesses in their economic sector. The 15 central federations of industry, crafts, commerce, banking and transport have formed the Joint Committee of German Trade and Industry as a body for asserting their common interests of fundamental importance.

(IN Press)



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